

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /091 W

-----017483 010317Z /75

R 301510Z JUN 77

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 7938

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS SECTION 1 OF 2 PRETORIA 3227

E.O. 11652: N/A

TAGS: ECON, SF

SUBJECT: HIGHLIGHTS OF QUARTERLY RESERVE BANK REPORT

1. SUMMARY: QUARTERLY REPORT OF RESERVE BANK SHOWS THAT RECESSION DEEPENED SIGNIFICANTLY IN FIRST QUARTER OF 1977 WITH REAL GDP DECLINING AT NEARLY A 4 O/O ANNUAL RATE. ON BALANCE OF PAYMENTS SIDE, THE FIRST QUARTERLY CURRENT ACCOUNT SURPLUS IN THREE YEARS WAS RECORDED, REFLECTING A DECLINE IN IMPORTS AND MODERATE GROWTH IN BOTH MERCHANDISE EXPORTS AND VALUE OF GOLD OUTPUT. HOWEVER, OWING TO A NET OUTFLOW OF PRIVATE CAPITAL, THE LARGE IMPROVEMENT ON CURRENT ACCOUNT WAS OFFSET BY A FURTHER DETERIORATION OF THE CAPITAL ACCOUNT. AS A RESULT FOREIGN EXCHANGE RESERVES SHOWED A MODEST DECLINE OVER THE QUARTER. INABILITY TO REBUILD RESERVES IN SPITE OF A CURRENT ACCOUNT SURPLUS INDICATES IMPROVEMENT IN BOP TO POINT WHERE IT CAN SUPPORT ECONOMIC RECOVERY WILL BE A SLOW PROCESS. END SUMMARY.

2. JUNE QUARTERLY REPORT OF RESERVE BANK WHICH

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COVERS FIRST QUARTER OF 1977 REPORTS THAT QUARTER WAS WORST YET EXPERIENCED DURING RECESSION IN TERMS OF OVERALL ECONOMIC GROWTH. GROSS DOMESTIC PRODUCT (GDP) DECLINED IN REAL TERMS AT ABOUT A 4 O/O ANNUAL RATE (SEASONALLY ADJUSTED) AND WAS ALSO AT A LEVEL 1 O/O LOWER THAN FIRST QUARTER OF 1976. THIS IS SECOND CONSECUTIVE QUARTER OF DECLINE IN

REAL GDP AND MEANS THAT THREE OF LAST FOUR QUARTERS HAVE EXPERIENCED REAL DECLINES. SECTORS SHOWING REAL GROWTH CONTINUED TO BE TRANSPORT AND COMMUNICATIONS, GENERAL GOVERNMENT, AND NON-GOLD MINING. MANUFACTURING, TRADE, AGRICULTURE, CONSTRUCTION, AND GOLD MINING ALL SHOWED DECLINES. PERFORMANCE OF MANUFACTURING SECTOR WAS PARTICULARLY WEAK WITH PHYSICAL VOLUME OF PRODUCTION REACHING ITS LOWEST LEVEL IN THREE YEARS. VALUE OF BOTH WHOLESALE AND RETAIL PRICES SHOWED DECLINES AND SALES OF NEW CARS REACHED LOWEST LEVEL SINCE 1969. VOLUME OF NON-GOLD MINING PRODUCTION INCREASED WHILE VOLUME OF GOLD PRODUCTION WAS DOWN 4 O/O. DUE TO IMPROVED TERMS OF TRADE RESULTING FROM HIGHER GOLD PRICES, REAL GNP IMPROVED marginally IN THE QUARTER. GROSS DOMESTIC FIXED INVESTMENT SHOWED A LARGE DECLINE IN REAL TERMS AND COMPARED TO LAST QUARTER OF 1976, EVEN DECLINING BY 4 O/O IN TERMS OF CURRENT PRICES.

3. CURRENT ACCOUNT OF BALANCE OF PAYMENTS SHOWED A SURPLUS OF R39 MILLION (R1.00 IS \$1.15) IN FIRST QUARTER OF 1977, THE FIRST SURPLUS IN THREE YEARS. THIS COMPARES WITH A DEFICIT OF R396 MILLION IN LAST QUARTER OF 1976. SEASONALLY ADJUSTED, CURRENT ACCOUNT IN FIRST QUARTER REMAINED IN DEFICIT AT R242 MILLION ANNUAL RATE (VS. R1,515M UNCLASSIFIED

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IN 1976.) LARGEST SINGLE FACTOR IN IMPROVEMENT IN CURRENT ACCOUNT WAS ABSOLUTE DROP IN IMPORTS WHICH AT R1,730M WERE 11 O/O LOWER THAN FIRST QUARTER OF 1976 AND 2 O/O LOWER THAN PREVIOUS QUARTER. MERCHANDISE EXPORTS (EXCL. GOLD) WERE R1,384M, UP 25 O/O OVER FIRST QUARTER OF 1976 AND 23 O/O OVER PREVIOUS QUARTER. NET GOLD OUTPUT WAS R609M, UP 5 O/O OVER PREVIOUS QUARTER. DEFICIT ON SERVICES AND TRANSFERS DECLINED TO R224M.

4. FURTHER DETERIORATION IN CAPITAL ACCOUNT, HOWEVER, OFFSET IMPROVEMENT IN CURRENT ACCOUNT AND CAUSED CONTINUED DROP IN NET RESERVES. LONG-TERM CAPITAL NET INFLOW DECLINED TO R148 MILLION, COMPARED TO R317 MILLION IN PREVIOUS QUARTER. RESULTING POSITIVE BASIC BALANCE OF R187 WAS CHANGED TO OVERALL DEFICIT BY OUTFLOW OF R349M IN SHORT-TERM CAPITAL OF WHICH R149M WAS PRIVATE SECTOR AND R262M WAS ERRORS AND OMISSIONS. LATTER IS LARGELY ALSO ATTRIBUTABLE TO PRIVATE SECTOR. RESULTING DEFICIT CAUSED R106M DROP IN GROSS FOREIGN EXCHANGE RESERVES. ONE FACTOR BEHIND OUTFLOW OF CAPITAL IS THAT WITH

ABSOLUTE DECLINE IN IMPORTS, PORTION OF IMPORT CREDITS MUST BE PAID OFF RATHER THAN BEING ROLLED OVER. IN APRIL, RESERVE BANK ANNOUNCED A GOLD SWAP WHICH RAISED GROSS RESERVES BY R94 MILLION AND ENABLED REPAYMENTS (ESTIMATED AT R250 MILLION) OF SOME SHORT-TERM LOANS OF RESERVE BANK.

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 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
 STR-04 CEA-01 /091 W
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5. CONSUMER PRICE INDEX ROSE AT A 13.3 O/O ANNUAL RATE DURING QUARTER COMPARED TO A 9 O/O IN PREVIOUS QUARTER. THIS IS ATTRIBUTED TO INCREASES IN GOVERNMENT ADMINISTERED PRICES PARTICULARLY GASOLINE AND TRANSPORT COSTS. REGISTERED UNEMPLOYMENT OF WHITES, COLOREDS, AND ASIANS REACHED 25,376 IN APRIL, APPROX. 1 O/O OF THIS PORTION OF WORK FORCE, UP 14 O/O SINCE DECEMBER. SUPPLY OF MONEY AND NEAR MONEY SHOWED A DECLINE OF 1.7 O/O DURING FIRST QUARTER OF 1977 AND LEFT IT ABOUT 4 O/O BELOW SAME QUARTER IN 1976.

6. COMMENT: DECLINE IN REAL GDP IN THE FIRST QUARTER WAS GENERALLY EXPECTED ALTHOUGH NOT THE SHARPNESS OF THE DROP. A SMALL POSITIVE GROWTH RATE FOR 1977 IS BELIEVED STILL POSSIBLE IF MINING AND AGRICULTURE CONTINUE TO PERFORM WELL AND GOLD AND MINERAL PRICES REMAIN FIRM. WE THEREFORE ANTICIPATE THAT THE CURRENT QUARTER WILL SEE A SMALLER DECLINE IN GDP THAN IN FIRST QUARTER OF 1977. VERY DEPRESSED STATE OF MANUFACTURING SECTOR IS CREATING CONSIDER-

ABLE CONCERN AND GROWING PRESSURE FOR SOME TYPE
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OF IMPORT PROTECTION. BALANCE OF PAYMENTS PICTURE
CAN BE DESCRIBED AS FRUSTRATING FROM SOUTH AFRICAN
POINT OF VIEW. AT EXPENSE OF SHARP DROP IN OVERALL
ECONOMIC GROWTH, GOVERNMENT WAS ABLE TO ACHIEVE
MASSIVE IMPROVEMENT IN CURRENT ACCOUNT ONLY TO SEE
IT OFFSET BY OUTFLOW OF PRIVATE SHORT-TERM CAPITAL,
PARTICULARLY TRADE RELATED AND PARTIALLY A REACTION
TO POLITICAL EVENTS. AS A RESULT, NO PROGRESS
WAS MADE ON THE KEY GOAL OF MONETARY AND FISCAL POLICY
OF INCREASING NET FOREIGN EXCHANGE RESERVES TO A
LEVEL WHICH WILL SUPPORT AN ECONOMIC RECOVERY. A
CONTINUATION OF CURRENT BOP TRENDS SHOULD PRODUCE
A GRADUAL RECOVERY OF RESERVES OVER REMAINDER OF THE
YEAR, BUT DATA FOR FIRST QUARTER RAISES DOUBTS THAT
RESTRICTIVE ECONOMIC POLICIES CAN BE EASED BEFORE END
OF YEAR AND EVEN THEN THERE IS NO CERTAINTY. AS THE
ECONOMIC AND SOCIAL EFFECTS CONTINUE TO SHARPEN, THE
PROBLEM FOR GOVERNMENT IS WHETHER IT CAN RISK
INDEFINITE APPLICATION OF THE MONETARY BRAKES.BOWDLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, QUARTERLY REPORTS, BANKS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977PRETOR03227
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770234-0968
Format: TEL
From: PRETORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977063/aaaaabxr.tel
Line Count: 196
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8c6f6078-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2064873
Secure: OPEN
Status: NATIVE
Subject: HIGHLIGHTS OF QUARTERLY RESERVE BANK REPORT
TAGS: ECON, SF
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/8c6f6078-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009